

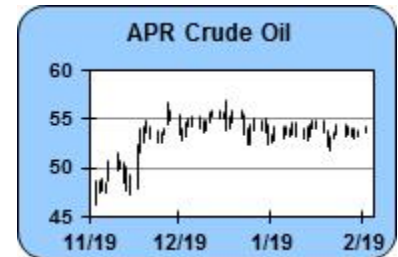


DAILY ENERGY COMPLEX COMMENTARY Tuesday February 21, 2017

DAILY ENERGY COMPLEX COMMENTARY 02/21/17

The path of least resistance is pointing downward

**OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
CRUDE +89, HEATING OIL +309, UNLEADED GAS +109**



CRUDE OIL MARKET FUNDAMENTALS: The crude oil contract spent most of last week consolidating or tracking sideways on its charts but this morning it has defied bearish US supply side fundamentals and it has broken out to the upside in the face of adversity from the Dollar. With the market opening the new trading week with a solid bid above its 50 day moving average of \$54.09 the bear camp has to be very disappointed in the lack of interest in large US inventories. However, a bullish reaction isn't that surprising in the wake of suggestions from an OPEC member that additional production restraint or an extension of production restraint could be seen if it was necessary. We also think that prices are being lifted because of a return of risk-on sentiment, new all-time highs in US equities and from OPEC comments that compliance with cuts was above 90% last month. However, with the "combined" spec and fund Net Long position in crude oil hitting a new record level at 575,327 contracts it is clear that the market has already burned a lot of fuel just to track upward in a \$2.90 range for the last 36 days. The actual Commitments of Traders Futures and Options report as of February 14th for Crude Oil showed Non-Commercial traders were net long position of 575,327 contracts. At least in the near term the market is set to discount news that the Baker Hughes crude oil rig count last week came in at 597, and that is highest reading since the week of October 9th, 2015 where the rig count was 605.

PRODUCT MARKET FUNDAMENTALS: After significant chart damage at the end of last week and a probe below the \$1.73 mark on the charts it is difficult to quickly throw off the downward bias in gasoline. While RBOB is seeing some cushion this morning from strength in crude oil and positive global equity market action we would expect it to be dragged higher instead of soaring higher because of huge US inventories and slack demand. In order to turn the downward bias around probably requires the trade back above an old double low of 1.7619. The Commitments of Traders Futures and Options report as of February 14th for Gasoline (RBOB) showed Non-Commercial and Non-reportable combined traders held a net long position of 79,453 contracts. The Commitments of Traders Futures and Options report as of February 14th for Heating Oil showed Non-Commercial and Non-reportable combined traders held a net long position of 58,101 contracts.

NATURAL GAS: As indicated already we see no reason to call for an end to the downward pummeling of natural gas prices. In fact a gap down range down extension would seem to leave little in the way of support until the \$2.8060 level. With only moderate cooling seen out to March 6th the market has concluded the North American heating season will draw to a close without significant tightening of inventories. While some production might be underwater because of the low price structure it will take time to see evidence of declining rig operating counts. In fact last week US natural gas rigs drilling rose by 4 to reach 153 rigs while horizontal rigs (used to extract oil or gas from shale) increased by 7. Near term downside targeting in April natural gas is seen at 2.792 and perhaps not until 2.788. While short-term technicals are oversold fundamentals and the commitments of traders report do not signal a bottom.

TODAY'S MARKET IDEAS:

While we are impressed that crude oil was able to rally off last week's lows and even more impressed with the

fresh range up extension this morning the market might be presented with significant overhead resistance from the last 30 days consolidation high up at \$54.96. For now commentary from OPEC and non-OPEC producers regarding the prospect of additional or extended production cuts is apparently a very powerful force. However, oversupply in both crude oil and gasoline inventories in the US still hangs over the market. We see the top of the upcoming range in April crude oil as \$55.35 with the bottom of the range likely at \$53.23. Pushed into the market we prefer to sell rallies keeping a close eye on US equities in the greenback.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

None.

| Commitment of Traders - Futures and Options - 2/7/2017 - 2/14/2017 | | | | | | |
|--|----------------|-------------------|--------------|-------------------|----------------|-------------------|
| | Non-Commercial | | Commercial | | Non-Reportable | |
| | Net Position | Weekly Net Change | Net Position | Weekly Net Change | Net Position | Weekly Net Change |
| Energies | | | | | | |
| Crude Oil | 557,570 | +29,704 | -575,328 | -17,506 | 17,757 | -12,198 |
| Heating Oil | 38,024 | -7,195 | -58,101 | +2,934 | 20,077 | +4,262 |
| Natural Gas | -35,381 | +8,129 | -5,001 | -6,686 | 40,382 | -1,443 |
| Gas (RBOB) | 70,178 | -821 | -79,454 | +1,101 | 9,275 | -281 |

OTHER ENERGY CHARTS:



ENERGY COMPLEX TECHNICAL OUTLOOK:

Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

CRUDE OIL (APR) 02/21/2017: Momentum studies are rising from mid-range, which could accelerate a move higher if resistance levels are penetrated. A positive signal for trend short-term was given on a close over the 9-bar moving average. It is a mildly bullish indicator that the market closed over the pivot swing number. The near-term upside target is at 54.30. The next area of resistance is around 54.07 and 54.30, while 1st support hits today at 53.45 and below there at 53.06.

HEATING OIL (MAR) 02/21/2017: Momentum studies trending lower at mid-range could accelerate a price break if support levels are broken. The close above the 9-day moving average is a positive short-term indicator for trend. The daily closing price reversal up is a positive indicator that could support higher prices. It is a mildly bullish indicator that the market closed over the pivot swing number. The next downside objective is now at 160.40. The next area of resistance is around 165.07 and 165.77, while 1st support hits today at 162.39 and below there at 160.40.

RBOB GAS (MAR) 02/21/2017: A crossover down in the daily stochastics is a bearish signal. Stochastics trending lower at midrange will tend to reinforce a move lower especially if support levels are taken out. A negative signal for trend short-term was given on a close under the 9-bar moving average. The market tilt is slightly negative with the close under the pivot. The next downside objective is now at 146.99. The next area of resistance is around 153.25 and 154.84, while 1st support hits today at 149.33 and below there at 146.99.

NATURAL GAS (MAR) 02/21/2017: Momentum studies are still bearish but are now at oversold levels and will

tend to support reversal action if it occurs. A negative signal for trend short-term was given on a close under the 9-bar moving average. The market tilt is slightly negative with the close under the pivot. The next downside objective is now at 2.785. The market is approaching oversold levels on an RSI reading under 30. The next area of resistance is around 2.877 and 2.922, while 1st support hits today at 2.809 and below there at 2.785.

DAILY TECHNICAL STATISTICS

| | CLOSE | 9 DAY RSI | 14 DAY RSI | 14 DAY SLOW STOCH D | 14 DAY SLOW STOCH K | 4 DAY M AVG | 9 DAY M AVG | 18 DAY M AVG | 45 DAY M AVG | 60 DAY M AVG |
|-----------------------|--------|--------------|---------------|---------------------------|---------------------------|----------------|----------------|-----------------|-----------------|-----------------|
| ENERGY COMPLEX | | | | | | | | | | |
| CLAJ7 | 53.76 | 51.00 | 50.53 | 56.44 | 59.17 | 53.71 | 53.53 | 53.71 | 54.08 | 53.65 |
| CLAK7 | 54.10 | 49.36 | 49.38 | 52.51 | 54.49 | 54.08 | 53.94 | 54.17 | 54.65 | 54.20 |
| HOAH7 | 163.72 | 48.27 | 48.25 | 36.43 | 35.37 | 1.63 | 1.64 | 1.64 | 1.67 | 1.65 |
| HOAJ7 | 164.70 | 48.19 | 48.38 | 38.57 | 37.56 | 1.64 | 1.65 | 1.65 | 1.67 | 1.66 |
| RBAH7 | 151.29 | 39.73 | 42.33 | 47.66 | 44.16 | 1.53 | 1.54 | 1.54 | 1.59 | 1.58 |
| RBAJ7 | 173.96 | 41.48 | 44.10 | 48.53 | 46.25 | 1.76 | 1.76 | 1.77 | 1.79 | 1.78 |
| NGAH7 | 2.843 | 26.07 | 32.29 | 9.07 | 5.97 | 2.88 | 2.99 | 3.10 | 3.29 | 3.32 |
| NGAJ7 | 2.952 | 29.42 | 35.10 | 12.30 | 7.77 | 2.99 | 3.08 | 3.17 | 3.28 | 3.28 |

Calculations based on previous session. Data collected 02/17/2017

Data sources can & do produce bad ticks. Verify before use.

DAILY SWING STATISTICS

| Contract | | Support 2 | Support 1 | Pivot | Resist 1 | Resist 2 |
|-----------------------|-------------|-----------|-----------|--------|----------|----------|
| ENERGY COMPLEX | | | | | | |
| CLAJ7 | Crude Oil | 53.05 | 53.45 | 53.68 | 54.07 | 54.30 |
| CLAK7 | Crude Oil | 53.40 | 53.79 | 54.01 | 54.40 | 54.62 |
| HOAH7 | Heating Oil | 160.39 | 162.38 | 163.08 | 165.07 | 165.77 |
| HOAJ7 | Heating Oil | 161.59 | 163.44 | 164.11 | 165.96 | 166.63 |
| RBAH7 | RBOB Gas | 146.98 | 149.32 | 150.91 | 153.25 | 154.84 |
| RBAJ7 | RBOB Gas | 170.30 | 172.34 | 173.54 | 175.58 | 176.78 |
| NGAH7 | Natural Gas | 2.784 | 2.808 | 2.853 | 2.877 | 2.922 |
| NGAJ7 | Natural Gas | 2.913 | 2.928 | 2.960 | 2.975 | 3.007 |

Calculations based on previous session. Data collected 02/17/2017

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